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NEW ZEALAND EMBASSY
37 OBSERVATORY CIRCLE, NW,
WASHINGTON, D.C. 20008

Phone: (202) 328-4800
Telex 89526

9 September 1981

Dear Michael,

... Enclosed is a copy of a letter the Ambassador has delivered today to the Chairman of the House Agriculture Committee on the recent sale of butter by the USDA:CCC to the New Zealand Dairy Board.

Yours sincerely,

A.C. Cranston
Minister (Commercial)

Encls.

DEPARTMENT OF STATE A/ODC/MR
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Mr. Michael Calingaert,
Deputy Assistant Secretary,
Bureau of Economic and Business Affairs,
Room 3529,
Department of State,
Washington, D.C.

NEW ZEALAND EMBASSY
37 OBSERVATORY CIRCLE, NW,
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9 September 1981

My dear Mr de la Garza,

As your Livestock, Dairy and Poultry Subcommittee has scheduled a hearing to review the recent sale of butter by the United States Department of Agriculture's Commodity Credit Corporation to the New Zealand Dairy Board, I thought it would be useful if I provided you with some background on New Zealand's involvement in the transaction. I am sending with this copies of the press statements that were made by the Chairman of the Dairy Board and the New Zealand Minister of Overseas Trade when the transaction was announced.

The background to the sale is simply stated. As you are aware, surplus dairy products have been accumulated in the United States under the milk price support programme so much so that by the end of July this year the Commodity Credit Corporation's support stocks of butter amounted to more than 439 million pounds.

New Zealand has consistently over the years made representations to the United States (and to other countries) to so organise your domestic dairy price support system to avoid the accumulation of surpluses, and indeed to provide normal trading opportunities. (You will know that the United States allows practically no imports of butter.) When the new Administration took office this year we agreed with its approach that the dairy support programme, which has resulted in prices far above those normal in international dairy trade and has encouraged butter production far exceeding internal demand, be modified. We also urged that every effort be made to dispose of existing surplus stocks internally and emphasised the serious destabilising effect which any large scale disposal of United States butter by way of export would have on

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The Honorable
E. Kika de la Garza,
United States House of
Representatives,
WASHINGTON D.C. 20515.

the very limited international market and the consequential damage to regular commercial exporters such as New Zealand.

You will know that the United States has itself for many years opposed the export of surplus farm products at subsidised prices, and that this has been a major feature of United States policies in the GATT and other international trading organisations. The United States is a member of the International Dairy Arrangement, an aim of which is to provide stability to the international dairy market and to avoid damage to those with a major interest in the market. New Zealand made clear that it considered that any United States disposal operation would be viewed as contrasting with long-stated United States views, and that New Zealand would feel it necessary to raise the matter in the GATT and the International Dairy Arrangement.

Pressure, however, continued to mount for export disposal operations with the result that New Zealand accepted an invitation to consult on measures to deal with the problem. Various options were examined. These included:

A. Attempting a direct sale by the USDA: CCC to the Soviet Union. New Zealand, and probably others, would have agreed with this option as the least disruptive to the international dairy market. It was, however, not acceptable to the Administration for other reasons.

B. Sale by tender, without limitation as to market. This would have seriously disturbed, if not destroyed, the current international marketing arrangements for butter. It would certainly have had a serious effect on the economy of New Zealand. Our understanding is that it would have been strongly opposed by most butter exporting countries in the world.

C. Sale by tender with markets limited to exclude the Soviet Union. This option would have had the same disadvantages as in B. above but more so. It is accepted worldwide amongst experienced traders in butter that the only possibility for disposing of the large current United States surplus by private sale without disruption to the world market would be within Russia. To go to tender with Russia excluded would have maximised the disruptive impact.

D. A sale by the CCC to the New Zealand Dairy Board, which would be responsible for onward sale of the product in a manner which would cause the least possible disruption to the market.

As you are aware, the final option was the one eventually chosen. The quantity of butter involved is 220 million pounds (100,000 tonnes). This is very large in relation

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to the size of the international butter market. You will note from the statement of the Dairy Board Chairman that international trade in butter not subject to import restrictions amounts to only about 440 million pounds (200,000 tonnes) annually.

There has been some comment about prices for this sale, and also the possibility of the United States using exports as a way of disposing of more surpluses. I cannot comment in detail on the price elements but it is relevant to note that the contract price is ex-warehouse. There will be considerable freight costs to get the product to port. Additionally, I understand that most if not all of the butter will have to be reprocessed before final sale. This will add processing costs and involve considerable additional freight elements.

As for further disposals by export, New Zealand and other countries obviously would remain concerned at the effects on the international market. For the United States, it is apparent that any export would of necessity be subsidised and costly. Current world butter prices are around US$2200-2360 FOB per tonne. CCC currently pays US$3,351 per tonne to purchase surplus production.

The direct and immediate consequences for New Zealand (and others) of uncontrolled sales by the United States on to the international market, including in particular the probability of a precipitious price decline, dictate New Zealand's concerns and the Board's involvement in this actual contract. You will realise that the effect on the New Zealand economy of a substantial drop in the price of butter and other milkfat prices would be severe. Dairy products earn more than 17 percent of our export income.

I trust you will find the foregoing useful. In the next day or so I intend to write to you further regarding some of the broader agricultural interests that are of concern to us. I am sending a copy of this letter and my further letter to Messrs Harkin, Wampler and Gibbons. I will seek your views on whether others might find a copy useful.

Yours sincerely,

Frank Gill
Ambassador

STATEMENT BY MR K.F. MEHRTENS, CHAIRMAN,
NEW ZEALAND DAIRY BOARD

THE BOARD AND THE AMERICAN BUTTER SURPLUS

We are buying surplus butter from the Americans to avoid a collapse of the international butter market. Were such a large tonnage allowed to enter the international trade in an undisciplined way, New Zealand would suffer a serious blow. The Board's intervention will prevent such an eventuality.

New Zealand dairy farmers live mainly on export earnings. Because of the significance of dairy exports in the economy, they affect all New Zealanders.

The United States Government has a surplus stock of about 200,000 tonnes of butter, as well as large surpluses of cheese and skim milk powder. One might ask what they should do with it. The elementary answer is that having already bought and paid for these products, the American people are entitled to eat them - which would give them by far the best value for their money.

It is fair to suggest that the United States should also trim its dairy support programmes so as to reflect real demand and take pressure off its tax-payers and our producers. The Americans have declined to give their butter back to their tax-payers, and have looked at export as an option in dealing with their surplus problem.

The international butter market is relatively small and the part open to trade without import restrictions is smaller still - only about 200,000 tonnes a year, mainly supplied by New Zealand and the EEC. The Americans' surplus is of a

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similar order and if they were simply to offer it at large these markets would collapse.

To their credit, the Americans have assured us that they intend not to damage our interests. At their invitation we discussed the options for clearing their stocks, accepting that the New Zealand Dairy Board, as the largest international butter trader, has know-how which could assist. We accepted the invitation as a matter of self-defence.

We do not in any way yield on the point of principle that the economic giants should not put up barriers to trade or try to unload their surpluses at our expense. They would be better occupied finding ways of supporting the legitimate interests of their producers without killing off consumption or generating surpluses, and thus acting more in line with the international trade rules which they propound for other products.

But for the present the Americans are bent on export. That being the case our interests, and those of our trading partners, are best served by trying to ensure a managed, rather than unmanaged, operation.

The purchases will be spread over the next year, and the Americans have agreed not to export to anyone else.

STATEMENT BY THE MINISTER OF OVERSEAS TRADE

The Government has of course been closely consulted by the New Zealand Dairy Board regarding its decision to purchase 100,000 tonnes of surplus American butter. Discussions on this possibility have been taking place with the United States authorities, on their initiative, for several weeks. Extensive consultations with the European Commission, European Community capitals and Governments of other countries with an interest in the international dairy market, have also been carried out.

The Dairy Board really had no alternative way of dealing with the problem posed by the determination of the United States authorities to dispose of their surplus stocks on the international market. The United States was of the view, regrettably enough, that these stocks could not be absorbed domestically - a solution which would have avoided the risk of serious disruption of the international market. In these circumstances, the Board felt that it had a responsibility to put together a workable arrangement which would safeguard the international dairy market. So the product is being purchased by the Board so that its sale can be managed on a controlled and organised basis.

We welcome the acceptance by the United States Government of the cooperative approach now adopted and we look to the understanding of other dairy exporting countries. New Zealand has for many years worked in harmony with the EC authorities on international dairy trading questions and this exceptional step to meet an exceptional situation can only be seen as a move taken in our mutual interest. We trust that there will be no call to repeat the exercise and that the United States authorities, for their part, will adopt responsible policies which do not encourage the production of surpluses which cannot be disposed of on the international market without a heavy subsidy.

The Government will continue to work with the Dairy Board as the arrangements now agreed are implemented.